

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 NEA-10 ISO-00 CIAE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 CEA-01 STR-04 IO-13 /109 W

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P R 040300Z MAY 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4635

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS: 12/31/76

TAGS: EAID, EFIN, NP

SUBJECT: HETAUDA-NARAYANGARH ROAD PROJECT IN NEPAL -- COST OVERRUN

SUMMARY: SUBJECT ROAD PROJECT APPROVED DECEMBER 19, 1972 HAS EXPERIENCED SUBSTANTIAL COST OVERRUN, WHICH BANK INDICATES IS DUE MAINLY TO SHARP AND UNEXPECTED INCREASES IN PRICES OF CONTRUCTION MATERIALS, FUEL AND EQUIPMENT RESULTING FROM WORLD-WIDE INFLATION AND REALIGNMENT OF CURRENCIES. BANK MANAGEMENT INTENDS TO PROCEED TO PROCESS PROJECT FOR CONSIDERATION OF BOARD OF DIRECTORS FOR SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES IN 1976, TO COVER FOREX ELEMENT OF COST OVERRUN ESTIMATED AT ABOUT \$4.8 MILLION. END SUMMARY.

1. BOARD OF DIRECTORS APPROVED \$10.10 MILLION LOAN TO NEPAL FROM SPECIAL FUNDS RESOURCES FOR FOREX COST OF SUBJECT PROJECT ON DECEMBER 19, 1972. LOAN
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INCLUDED \$7.84 MILLION FOR CIVIL WORKS, \$0.90 MILLION

FOR CONSULTANTS' SERVICES AND \$1.36 MILLION OFR CONTINGENCIES. PROJECT INVOLVES RECONSTRUCTION AND IMPROVEMENT OF EXISTING 80-KM. FAIR WEATHER GRAVEL ROAD BETWEEN INDUSTRIAL CENTER OF HETAUDA AND COMMERCIAL AND TRADING CENTER OF NARAYANGARH IN CHITWAN VALLEY. PROJECT ROAD SERVES BANK-FINANCED CHITWAN VALLEY DEVELOPMENT PROJECT AND ALSO FORMS IMPORTANT LINK ON 1,040 - KM. LONG EAST-WEST HIGHWAY PLANNED TO TRAVERSE FERTILE TERAI PLAINS OVER WHOLE LENGTH OF COUNTRY.

2. CANADIAN CONSULTING FIRM, N.D. LEA AND ASSOCIATES, WAS APPOINTED IN OCTOBER 1973; DETAILED ENGINEERING WAS COMPLETED IN NOVEMBER 1974; TENDER DOCUMENTS WERE ISSUED TO PREQUALIFIED CONTRACTORS IN DECEMBER 1974; AND BIDS WERE OPENED IN APRIL 1975. CIVIL WORKS WERE DIVIDED INTO THREE CONTRACT PACKAGES TO ATTRACT LARGE NUMBER OF CONTRACTORS. IN JULY 1975, BANK RECEIVED PROPOSAL TO AWARD CONTRACTS TOTALLING \$18.79 MILLION COMPARED TO APPRAISAL ESTIMATE OF \$10.74 MILLION.

3. IN AUGUST 1975. BANK MISSION VISITED NEPAL AND DISCUSSED ALTERNATIVE COURSES OF ACTION TO MEET SITUATION CONCERNING COST OVERRUN. MISSION FOUND THAT CHANGE IN DESIGN STANDARDS WAS NOT FEASIBLE AND REDUCTION IN SCOPE WOULD SERIOUSLY AFFECT BORROWER'S DEVELOPMENT EFFORTS IN CHITWAN VALLEY, INCLUDING BANK-FINANCED CHITWAN VALLEY DEVELOPMENT PROJECT. MISSION ALSO CONCLUDED THAT, BECAUSE OF BANK INVOLVEMENT IN SUBJECT PROJECT AND PRIOR FIRM COMMITMENTS OF BILATERAL FUNDS TO OTHER DEVELOPMENT PROJECTS IN NEPAL, ALTERNATIVE FINANCING FROM SUCH OTHER SOURCES TO MEET COST OVERRUN WAS FOUND NOT POSSIBLE BY BORROWER. IN VIEW ABOVE, AND AFTER INTERNAL BANK STUDY INDICATED PROJECT STILL ECONOMICALLY VIABLE, BANK, ON AUGUST 13, 1975, AGREDD TO GOVT'S PROPOSAL TO AWARD OF ALL THREE CONTRACT PACKAGES WITH UNDERSTANDING BANK WOULD FINANCE COST OVERRUN ONLY IF PROPOSED SUPPLEMENTARY LOAN IS APPROVED BY LIMITED OFFICIAL USE

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BOARD OF DIRECTORS.

4. CIVIL WORKS CONSTRUCTION IS NOW IN PROGRESS AND IS EXPECTED TO BE COMPLETED BY JULY 1978, SOME SEVEN MONTHS BEHIND ORIGINAL SCHEDULE. SLIPPAGE WAS MAINLY DUE TO DELAYS IN CONSULTANTS' WORK DURING OIL CRISIS AND LONGER THAN ESTIMATED TIME TAKEN FOR EVALUATION OF TENDERS AND AWARD OF CIVIL WORKS CONTRACTS.

5. TOTAL PROJECT COST IS NOW ESTIMATED AT \$22.54 MILLION OR \$8.52 MILLION (ABOUT 61 PERCENT) OVER ORIGINAL \$14.02 MILLION ESTIMATE. BANK DOCUMENT INDICATES THAT SUBSTANTIAL INCREASE IN COST OF CIVIL WORKS IS DUE MAINLY TO SHARP AND UNEXPECTED INCREASES IN PRICES OF CONSTRUCTION MATERIALS, FUEL AND EQUIPMENT RESULTING FROM WORLD-WIDE INFLATION AND REALIGNMENT OF CURRENCIES. DOCUMENT ALSO NOTES THAT TRANSPORT COST SAVINGS, WHICH CONSTITUTE PROJECT BENEFITS, HAVE ALSO INCREASEDD SIGNIFICANTLY. AS RESULT, PROJECT IS STILL CONSIDERED ECONOMICALLY VIABLE WITH ECONOMIC INTERNAL RATE OF RETURN OF ABOUT 15 PERCENT VERSUS 14.3 PERCENT ESTIMATED AT TIME OF APPRAISAL.

6. BANK MANAGEMENT, THEREFORE, INTENDS TO PROCEED WITH PROCESSING OF PROJECT FOR BOARD CONSIDERATION FOR SUPPLEMENTARY LOAN IN 1976, ESTIMATED AT ABOUT \$4.8 MILLION.

7. ADB DOC. IN. 47-76 ON ABOVE SUBJECT WAS POUCHED ADDRESSEES MAY 3. THIS IS INFORMATION DOCUMENT WHICH DOES NOT REQUIRE ANY ACTION BY BOARD OF DIRECTORS AT THIS TIME. SUPPLEMENTARY LOAN PROPOSAL IS TENTATIVELY SCHEDULED FOR AUGUST 1976 CONSIDERATION. SULLIVAN

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